

May 11, 1992

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& Investments

The Newspaper of Corporate and Institutional Investing

\$10 An Issue \$150 A Year

AT DEADLINE

Proxy resolution draws 14%

The New York City Employees' Retirement System's proxy resolution requiring General Dynamics to have a majority of independent board members drew 14% support from shareholders.

The support is above the 3% level the SEC considers significant enough to permit the reintroduction of the same proposal next year, said John J. Murphy, executive director.

Endowment hires 2 for stock

Middlebury College, Middlebury, Vt., hired two managers to run \$15 million each in domestic equities for its \$236 million endowment fund, said Carol Lusk, endowment investment manager.

Hired were Harbor Capital Management and Essex Investment Management. The \$30 million was taken evenly from an intermediate cash fund and a hedged equities fund, both managed by The Common Fund. The endowment transferred an additional \$15 million from the hedged equities fund to the Common Fund's domestic equity account.

JWP selects IDS Trust

JWP Inc. has hired IDS Trust to serve as investment manager, administrator and trustee of its \$23.1 million 401(k) plan. IDS will provide four investment options: a pooled GIC fund, a balanced mutual fund and two equity funds.

Fund picks consultant

Stevens Graphics Corp. hired the asset management consulting group of Rauscher Pierce Refsnes to provide consulting services to

Continued on page 29

INSIDE



Seeking a comeback

Victor Morgenstern, president of Harris Associates, which has suffered the loss of clients and a high-profile staff member, is hoping an economic recovery and a new mutual fund will reverse the firm's fortunes. Page 15.

Sears shareholder revolt is cooling

Increase in stock price gives management a second chance



Proxy resolutions pushed by Robert A.G. Monks may get no more than 20% of the vote.

CHICAGO — Anti-management proxy resolutions at Sears, Roebuck and Co. likely will garner only 15% to 20% of shareholder votes, a canvass of institutional shareholders shows.

The telephone survey was conducted by *Pensions & Investments* and its sister publication, *Crain's Chicago Business*, in advance of Sears' May 14 annual meeting in Atlanta.

The vote is viewed by some as a test case for the growing strength of the corporate governance movement. But with Sears' stock price up significantly from last year, some of the edge has been taken off the battle.

Indeed, the company that some observers had labeled the next GM — referring to the shake-up

at General Motors Corp. last month — now appears to be a company whose management may have bought more time to increase shareholder value.

Two key shareholder proposals — one that calls for the chairman and chief executive post to be split, and another that asks for a public study of the breakup value of Sears — are unlikely to gain enough support to galvanize Sears' historically reticent board of directors.

One wild card in the contest will be the votes cast by Sears employees — who together control 21.9% of company shares. The results of last year's employee vote, recently released internally by Sears, reveal a surprising level of

discontent among employees. And with wave after wave of layoffs, morale has only dropped since then.

But major institutional shareholders — who control about 40% of the company's 344 million shares — are expected to cast less than 20% of their shares in favor of the anti-management proposals on the proxy.

Still, the annual meeting likely will set the tenor of Sears' relationship with results-hungry Wall Street for the next 12 months. Interest in the meeting has been heightened since GM's board shook up top management.

In fact, officials at the \$60 billion California Public Employees' Retirement System, Sacramento, would like to see a recurrence of the GM shake-up at Sears. "We really would like the board to take hold of this situation," said Richard Koppes, the fund's general counsel.

See Sears on page 26

L.A. riots terrorize money managers

Firms turn to emergency work plans

By Steve Hemmerick

LOS ANGELES — Rioters and looters terrorized this city's financial community as they swept into downtown Los Angeles and raged down Wilshire Boulevard.

Nervousness and sheer fear flushed anxious investment management firms' staffs from their workplaces. Many employees dodged fires, looting and police and fire lines on their way home during the rioting. Many money managers and businesses closed their businesses for one day.

The Dow Jones Industrial Average closed April 30, the first full day of rioting following the Rodney King verdict, at a high of 3359. The next day, with many

money managers working under emergency plans designed for earthquakes, the Dow took a 23-point dive.

Although almost all spoke of the fear that rolled through their lives, pension fund officials and money managers took different tacks in dealing with the riots:

- Capital Guardian Trust Co., Los Angeles' largest money manager, closed at 2 p.m. April 30. Traders and investment controllers, used in monitoring trading activity, were sent to its Brea office, about 25 miles from its downtown office, May 1. Some portfolio managers and research personnel worked at home. If needed, the firm could have moved its trading operations to its offices in San Francisco or New



Investment professionals had to dodge violent scenes as they tried to escape the riots that consumed downtown Los Angeles.

York.
"I think the bigger concern was the nervousness and the anxiety" among employees, said James F. Rothenberg, president of Capital Guardian. "People had radios (in

the office before it closed), and the coverage made it sound like the world was coming to an end."

- Merus Capital Management closed its downtown Los Angeles

See Riot on page 31

GM stock contribution eases underfunding

By Curtis Vosti

NEW YORK — General Motors Corp.'s planned contribution of up to \$500 million of new company stock to its pension plans is targeted to reduce the auto giant's \$8.6 billion unfunded pension liability.

It also could be used to save cash that otherwise would be used for minimum contributions in coming years, as the auto giant restructures in an attempt to re-

main a viable company.

The contribution of common stock to GM's \$34 billion defined benefit plans will be made after

Funds cautious about new GM stock issue. Page 3.

\$2.4 billion of new common stock is issued.

W. Gordon Binns, president of General Motors Investment Management Corp., the subsidiary

that oversees investment management of GM's \$40.8 billion in employee benefit assets, said the company announced the pension fund's stock contribution at the same time as the public stock offering to let investors know about the additional dilution of the more than 600 million shares of common stock outstanding. The two offerings constitute an approximate 11% dilution of existing shares.

The stock contribution will be a supplement to an unspecified cash

contribution, the company's first since the mid-1980s.

GM expects to contribute up to 12 million shares to the pension fund. GM common stock closed at \$40.50 May 6.

In its last contribution to the pension fund, in 1987, GM contributed 19.6 million shares of a new preference stock valued at an average of \$53 a share, or a \$1.04 billion contribution.

The 1987 preference stock contribution took advantage of tax

See Liabilities on page 27

BEST AVAILABLE COPY

NEWS DIGEST



Standards created for investment advisers on the presentation of performance numbers seem to have neglected the very audience they were intended to serve. In Commentary, Page 11.

SPECIAL REPORT: CANADIAN PENSION SCENE

The question of Quebec's political future is keeping investments from Quebec-based organizations. Page 12.

New legislation increasing the amount Canadian pension funds can invest outside the country is being felt by managers and consultants. Page 12.

INTERNATIONAL

The proposed \$750 million IPO of an Irish aircraft leasing company has run into turbulence. Page 6.

The showdowns and high dramas in the former Soviet Union republics slow efforts to channel U.S. pension fund capital into the region. Page 19.

REAL ESTATE

A Blue Cross & Blue Shield pension fund buys Olympia & York's interest in a privately held REIT. Page 2.

The General Board of Pensions of the United Methodist Church is putting \$5 million into an innovative, low-income housing investment strategy. Page 22.

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Vol. 20, No. 10 — Pensions & Investments (ISSN 1050-4974) is published biweekly with a special edition in May by Crain Communications, Inc., 740 Rush St., Chicago, Ill. 60611-2590. Second class postage paid at Chicago, Ill. and at additional mailing offices. Postmaster: Send address changes to Pensions & Investments, Circulation Dept., 965 E. Jefferson, Detroit, Mich. 48207.

P&I takes on a new look

Pensions & Investments has a new look. Effective this issue, P&I is using a new, thicker paper stock. Publisher Bill Bisson said the matte-finish stock produces "truer colors, colors that hold better." The new paper also helps legibility because it cuts glare significantly. "It's an improvement in quality, a better look for P&I," Mr. Bisson said.

Industry faces 2 standards

Portability of performance, use of cash sets them apart

By Fred Williams

The investment management community, which has thrived for years without uniform performance measurement and reporting standards, soon might have two such standards to consider.

One set of standards has been developed by the Association for Investment Management and Research, Charlottesville, Va.; the other has been developed by a task force of the Investment Management Consultants Association, Denver.

Both are designed to simplify performance comparisons among managers and to reduce misuse of performance figures in marketing and reporting to pension fund officials.

Although the standards parallel in most areas, significant differences exist. Among the issues with varying treatment:

- **Cash in balanced accounts.** The AIMR generally wants cash allocated to the asset class from which it comes, i.e., equities and fixed income. The IMCA generally wants cash to be accounted for separately.

- **Portability of performance.**

The IMCA would allow limited transfers of performance achieved at another firm, if disclosed. The AIMR does not permit portability.

- **Composite reporting.** The money management group requires composites based on account size. The consulting group prefers equal weighting.

The two sets of standards are aimed at different audiences. The AIMR's are designed to provide disclosure rules for money managers, while the IMCA's are designed to guide the consultant industry in how it uses the data provided by money managers.

The most widely known and familiar standards thus far are the AIMR rules, which have been in circulation for several months. But the IMCA standards, which were released in draft form to a limited audience less than a month ago, might cause the investment management community to take notice because of the consultants' role as conduit for new business.

Both are slated to become effective for their respective members in early 1993.

The IMCA standard draft was distributed to members of the performance standards task force,

which included several non-member consulting firms, for review in April. Most large consulting firms have not yet had an opportunity to evaluate how the two sets of standards compare. Another draft is expected to be disseminated to the consulting industry later this year.

Most consultants agree, however, it will be they who determine which standards are used for information reporting and in money manager searches for pension clients.

Consultants point out the IMCA standards are built largely on the AIMR standards.

"We support the AIMR standards, but would like to see some changes made," said Leonard Armstrong, vice president with Merrill Lynch & Co., Albuquerque, N.M., and former president of the IMCA.

Said Terry Bilkey, principal with Yanni Bilkey Consulting, Pittsburgh: "My guess is that consultants will probably do as a group whichever is easier for us given the data bases we must maintain."

"What will eventually happen is that the standards which prevail

See Standard on page 30

O&Y unit sells stake in REIT

By Terry Williams

The \$800 million Blue Cross & Blue Shield Association National Retirement Trust, Chicago, has acquired cash-strapped Olympia & York's interest in the privately held Retail Property Trust.

The pension fund paid slightly more than \$9 million for the portfolio of regional malls, said Terrence R. Ahern, a principal with The Townsend Group, Cleveland, Blue Cross & Blue Shield's real estate consultant.

The purchase price was almost 20% less than what Olympia & York wanted for the shares of the \$800 million real estate investment trust, according to Kevin Lynch, a principal with Townsend.

An Olympia & York spokesman confirmed that Olympia & York (USA), a subsidiary of Olympia & York Developments Ltd., the giant Toronto-based developer, sold its stake in the REIT to the pension fund. The proceeds from the sale will be used for general corporate purposes, the spokesman said.

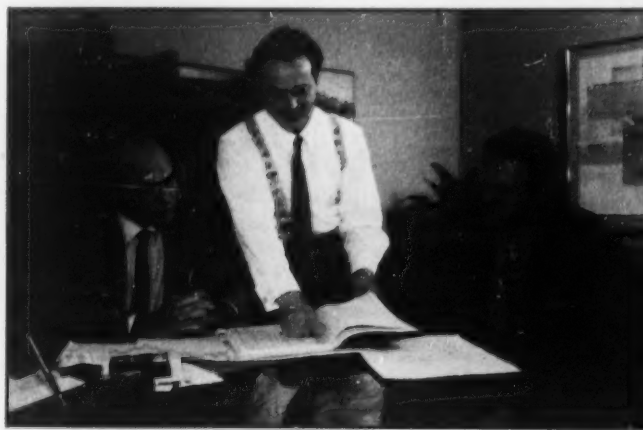
The Blue Cross & Blue Shield pension fund purchased 493,914 shares at a unit price of \$18.42.

According to Mr. Lynch, Olympia & York (USA) notified the REIT's manager in October of its desire to sell its stake. The manager is The O'Connor Group, New York, according to Money Market Directory.

"Our recommendation was not to acquire at that point, anticipating further devaluation of the assets," said Mr. Lynch.

When negotiations began, the unit value of the REIT was \$22.54.

See REIT on page 28



Walter Oechsle, left, Franz Schmadl and Christopher Carey joined forces to acquire currency manager Matuschka & Co.

Matuschka Group sells currency arm

By Sabine Schramm

Three key executives of Matuschka & Co., along with Oechsle International Advisors, have bought the U.S. currency manager from Matuschka Group.

The new firm — OSV Currency Advisors L.P., with offices in Boston and Frankfurt — is owned by Franz Schmadl, Christopher J. Carey and Felix von Griesenbeck, all part of the Matuschka Group's currency unit. Oechsle is a minority investor. The price of the deal could not be learned.

The new firm is a limited partnership with Mr. Schmadl and his team holding majority interest and 100% of the voting shares in the company, according to Steve Langer, partner at Oechsle. Mr. Schmadl will be general managing partner, while Messrs. Carey and von Griesenbeck will be partners.

Oechsle, a limited partner, has no say in the management of the business and has no immediate plans to market the currency services to its clients, although they are aware of the investment in OSV.

"It was a unique opportunity, which we came on by happenstance because of Franz Schmadl, whom we've known for years," said Mr. Langer.

The Matuschka Group, a German financial services firm, had announced earlier this year it would discontinue most of its institutional money management services and the firm's U.S. currency management unit might be sold.

OSV's portfolio management work will be in Frankfurt, where Messrs. Schmadl and von Griesenbeck live now. Oechsle has an office in Frankfurt as well, and "it allows us to walk across the street

See Currency on page 25

Pension funds cast a wary eye at GM issue

By Christine Philip

Pension fund executives are skeptical of General Motors Corp.'s ability to turn itself around any time soon, but some intend to take a look at the company's new \$2.4 billion common stock issue.

"We are considering the stock offering and are seriously looking at GM. But whether we buy any more will take a well-demonstrated change in the company. They keep talking about change but keep falling short of success," said Roland Machold, director of the \$31 billion State of New Jersey Division of Investment, Trenton.

New Jersey holds about 3.5 million shares of General Motors stock.

Mr. Machold said he has been talking with General Motors officials for many years, and "I mean what I say kindly. I look at General Motors and their attitude is of knowing what to do but not actually doing it. They know what their problems are, but they can't seem to do anything about them."

Sharon Scrogam, equity manager for the \$2.4 billion New Mexico Educational Retirement Board, Santa Fe, said, "I have a positive feeling in general about General Motors, assuming they're able to restructure. But that is a big 'if.'"

The New Mexico Educational fund holds about 260,000 GM shares, which represents a slight increase in its holdings from year



GM's troubles are high on the minds of pension funds considering the company's \$2.4 billion offering.

end. Ms. Scrogam said fund executives hope to see General Motors produce more units, better control costs and stabilize its market share.

"There is a certain amount of taking them on faith," she added. "GM has to focus on quality in the

future, like all U.S. auto manufacturers."

Barry L. Stevens, director-bureau of investments for the roughly \$20 billion State of Michigan Retirement Systems, Lansing, said: "The potential for success of the issue in an investor's

mind depends on his view of the recovery of the economy. GM is an economically sensitive stock which will profit from recovery. If you believe that the economy is recovering, you will buy it."

Michigan already holds 8.3 million shares of GM stock. "We have

already felt that the company is doing what needs to be done; that's why we hold such a large position," Mr. Stevens said. "We need them to come through with results now. We don't need to be convinced to buy their shares."

New Jersey's Mr. Machold also pegs GM's success to that of the economy. If the economic recovery is strong, Mr. Machold said, General Motors stands a "good chance to succeed. GM has another leg on life, but has yet to solve its systemic problems."

One money manager — Anthony Gray, president of SunBank Capital Management N.A., Orlando, Fla. — said his firm "has used the stock in the past and would be candidates to buy more. We are reasonably positive right now with what is happening at GM."

He cited several factors that contribute to the feeling General Motors would do better, including an improvement in the auto industry generally; a decent product line at GM; and improved general management and the acceleration of cost-cutting measures.

But Mr. Gray also had some reservations over General Motors' future. "We want to get the feeling that they are taking major action to improve profitability," Mr. Gray said. "The direction in the past has been acceptable, but has not been fast enough. They know that they have to fix broken areas within the company, but have been slow to do so thus far."

Nevertheless, Mr. Gray said

See Issue on page 27

Governments look at defined contribution

By Curtis Vosti

Defined contribution plans, common in the corporate world, are sparking interest among state and local governments as they grapple with liabilities and focus on ways to supplement existing defined benefit plans.

Just in the past year, Colorado and Oklahoma have given municipalities and universities the right to establish defined contribution plans.

The interest in these plans is increasing even though the Tax Reform Act of 1986 put the most popular corporate defined contribution plan — the 401(k) — beyond the reach of governmental units that hadn't already enacted one. The prohibition against public 401(k)s might be lifted, however, and numerous other sections of the tax code allow public sponsors to form defined contribution plans.

Additionally, defined benefit anti-discrimination regulations are scheduled to be applied to public plans beginning in 1995, and that could prompt more governments to move to defined contribution structures.

Use of defined contribution plans by state and local governments is far from widespread. Fewer than 10% of 271 government entities surveyed by the Government Finance Officers Association, Washington, have some sort of defined contribution plan. On the corporate side, however, upward of 95% of corporations

with \$100 million or more in total revenue have such plans, according to research from Greenwich Associates, Greenwich, Conn.

Among the plans available to governments are:

- **Section 457 plans.** Probably the most popular among governments, this deferred compensation plan is not tax qualified and not trustee. As such, the assets technically are owned by the employer until retirement distribution, and there is no five-year forward averaging allowed for taxes because the assets are considered deferred wages. But because it is not tax qualified, participants can get the money immediately upon separation from their employer without a tax penalty. Participants in other, tax-qualified plans have to wait until retirement age to access the money, or pay a tax penalty.

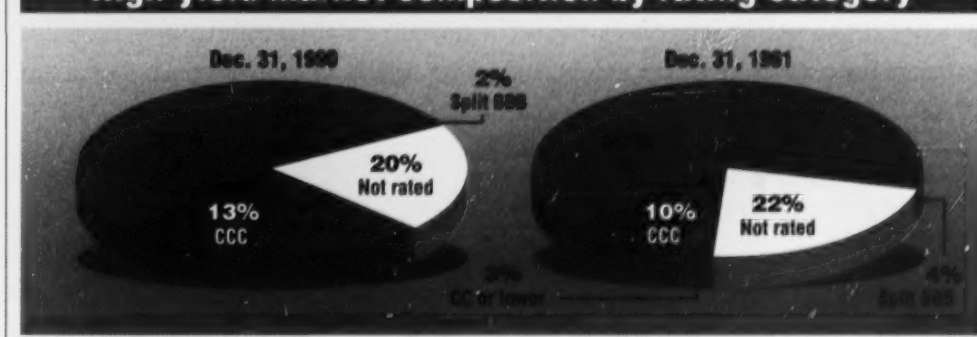
Also, in 457 plans, loans are not allowed and contribution limits are set at \$7,500 per year — and are not indexed to inflation, as are 401(k) contributions.

- **Section 403(b) plans.** These salary reduction plans are designed for a state's educational employees. The contributions are transferred into an annuity or custodial account, and are limited to 16 7/8% of pay. The Teachers Insurance and Annuity Association — College Retirement Equities Fund, the nation's largest pension plan, serves university teachers under Section 403(b).

- **Section 414(h)(2) plans.** In these, the state or municipality

See Plans on page 25

High-yield market composition by rating category



Bond managers turning to junk

Pension clients OK hunt for high yields

By Anne Schwimmer

Hard pressed by narrowing spreads between corporate bonds and comparable U.S. Treasury securities, fixed-income money managers are becoming bigger players in the junk bond market.

Despite the dramatic meltdown in high-yield bond prices in late 1989, cautious pension executives have given their fixed-income managers the all-clear to step up junk bond investments in order to reap better yields.

By investing in top-tier junk bonds (rated BB), managers can gain 60 to 110 basis points in return over the lowest-rated (BBB) investment grade bonds.

"We as a firm have very visibly

spoken out against junk bonds... (but) the nature of the high-yield universe has changed dramatically," said Ben Trosky, vice president and portfolio manager at Pacific Investment Management Co., Newport Beach, Calif. PIMCO has \$35 billion in fixed-income assets under management, of which about \$500 million to \$750 million is in below-investment-grade securities.

PIMCO selectively allocates up to 10% of its fixed-income assets to junk bonds, with its clients' permission. Until 1990, it had no money in junk bonds; its below-investment-grade holdings peaked at more than \$1 billion in 1991 and since have been shrinking.

Some high-grade bond managers increasing their positions in the junk bond area are Bankers Trust Co., BEA Associates and Loomis, Sayles & Co. Inc. Also increasing junk investments are

high-grade bond mutual funds like the IDS Bond Fund and the Kemper Income Capital Preservation Fund.

Money managers say they need to search for higher yields because the current low interest rate environment has been eating away at fixed-income total returns. In addition, they say, the number of issues by better-quality leveraged companies has increased.

Many of those companies are de-leveraging by opportunistically raising fresh equity in the strong stock market. They can then retire old, more expensive debt with new, cheaper issues.

Issuers relying on crossover buyers include: Time Warner Inc., Food 4 Less Inc., The Stop & Shop Cos. Inc., Foodmaker Inc., Infinity Broadcasting Corp. and American Standard Inc.

Said Warren Ackerman, senior

See Junk on page 29

MONEY MANAGERS

Batterymarch taking a team approach to investing



Batterymarch founder Dean LeBaron said the firm's restructuring is being built on the strengths of the three team leaders.

■ Batterymarch Financial Management, Boston, has restructured its investment management staff into three teams: U.S. investments; international investments; and emerging markets.

Tom Linkas, trustee, has been appointed team leader for U.S. investments; Jarrod Wilcox, trustee, has been named team leader for international investments; and James Ullman, trustee, heads the emerging markets team.

The restructuring followed the appointment late last year of Tania Zouikin, founder of Batterymarch: Canada Inc., as chief executive officer of Batterymarch Financial Management.

Dean LeBaron, founder of Batterymarch, said the restructuring built on the strengths of the team leaders. He also said he is finalizing a plan to provide significant equity interest in the firm to key staff members.

Batterymarch's domestic equity composite was up 28.6%, net of fees, in 1991, compared with 30.6% for the Standard & Poor's 500 Stock Index.

Its international equity composite was up 11.6% and its global equity composite, 20.1%, net of fees, compared with 12.5% for the Morgan Stanley Capital International Europe Australia Far East Index. The equity fund of Latin America, with assets of \$325 million, was up 96.7%, while the equity fund of Brazil, with assets of \$105 million, was up 143%.

— Michael J. Clowes

ECONOMY

Economist owns up to rate miscall

■ Robert Dederick, economist at The Northern Trust Co., Chicago, knows what a difference a week can make.

In his April 3 outlook for interest rates sent to clients, Mr. Dederick insisted there would be no "meaningful change" in short-term interest rates — especially the federal funds rate — in the near future.

"How could the Fed possibly justify anything other than a stand-pat policy for now?" Mr. Dederick asked.

In his April 10 "earlier-than-usual revision," he admitted he's busy "wiping the egg off my face," because the rate indeed was lowered.

But give Mr. Dederick his due. He admits where he went wrong:

- He underestimated Fed Chairman Alan Greenspan's concerns over declining M2 numbers.

- He miscalculated Mr. Greenspan's response to some March business statistics, such as non-farm payroll numbers and weak retail sales.

- He didn't know — who did — the Japanese stock market was going to "take gas this week and thereby spread unease elsewhere."

As a result, Mr. Dederick has changed his predictions: "Short rates will be lower than expected earlier; long rates will not."

— Nancy K. Webman

BENEFITS

Directors load up on company stock

■ Use of stock-based plans to compensate directors has exploded in recent years, as companies try to align the interests of directors with shareholders, according to a survey by Hewitt Associates, Lincolnshire, Ill.

More than half (52%) of the 150 largest U.S. industrial companies use equity-based plans, up from about 2% in 1985, Hewitt found. Also, 45% of diversified service companies, 36% of banks and 31% of utilities use the plans. The most common type of plans include non-qualified stock options, restricted stock and outright stock grants.

— Joel Chernoff

FINANCING

Venture capital game for rich?

■ The more than \$2 trillion in pension assets must look to venture capitalists like a 12-course menu does to a starving man.

While pension fund executives appear to be viewing venture capital with a jaundiced eye — because returns didn't meet their expectations and the area's lack of liquidity — the industry is still hoping for a surge in pension fund interest. That is, except for at least one academic who specializes in the venture capital area.

It is high-net worth, entrepreneurial "individuals, not the institutional venture funds that really are the farmers of American industry," William Wetzel the Forbes Professor of Management at the University of New Hampshire's Whittemore School of Business told listeners at a roundtable discussion last October.

Mr. Wetzel's comments ran in the Winter 1992 edition of the Journal of Applied Corporate Finance.

"I would guess that (individuals) invest annually between \$20 (billion) and \$30 billion, which is at least 10 times the amount invested by institutional venture funds," Mr. Wetzel said.

— Anne Schwimmer

INTERNATIONAL

Bank plays teacher to Asian group

■ The investment management division of First Interstate Bank of California, Los Angeles, recently played host to financial executives from China, Thailand and Taiwan at its first Investment Management Seminar for Asia Pacific Institutions.

Participants from five banks as well as China's emerging securities industry spent a month studying the principles of portfolio and risk management and theories of investment principles.

First Interstate developed the seminar to satisfy the strong interest of its Asia-Pacific clients in learning more about investment management.

"Given the rapid growth of Asia-Pacific's emerging capital

markets, there exists within their financial community a growing appetite for knowledge related to the development of proprietary investment and portfolio management capabilities," Alan Adelman, senior vice president and chief investment officer, said in a news release.

The curriculum included specific study of investment management and securities analysis and a monitoring program in which students worked with a team of investment professionals observing daily portfolio management routines. Students also were given the opportunity to manage a simulated portfolio and watch its progress through the month.

— Christine Philip



Financial executives from Taiwan, Thailand and China became students at a seminar hosted by First Interstate Bank of California.

REAL ESTATE

Public funds see real estate surge

■ Public pension plans are looking to expand their real estate investment staffs at a time when corporations are expected to hold firm, according to a recent survey.

Only 5% of the chief executive officers of 502 of the largest U.S. companies with real estate interests in the United States and internationally expect to add a senior real estate executive; 50% of the public pension plans said they plan to add an experienced real estate executive to their staffs.

In addition, 33% of the money managers surveyed said they expected to add a senior real estate executive for servicing pension funds.

The survey was conducted by Chicago-based Ferguson Partners Ltd., a real estate business advisory firm.

Those surveyed include the top tier companies among those affected by the real estate industry, including commercial banks, credit companies, pension fund advisers, pension funds, major corporations with real estate subsidiaries and major brokerage and development firms.

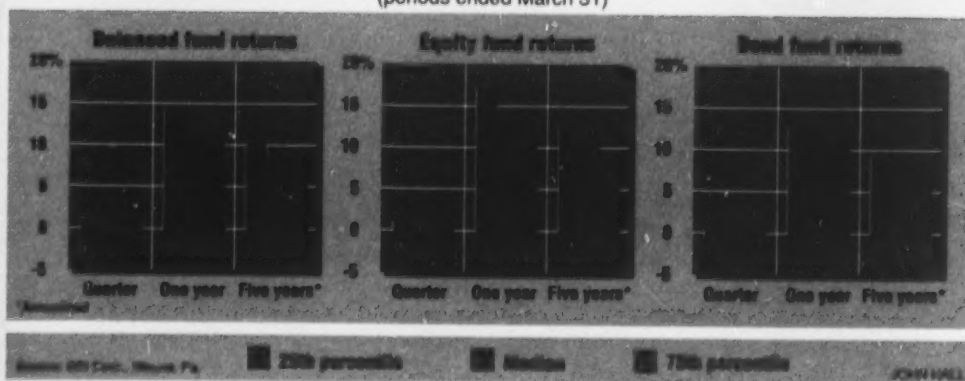
The firm reported 25% of survey participants had hired real estate personnel in the past six months, compared with 35% a year earlier.

Ferguson also found 54% of thrifts and residential mortgage banks expected to hire a senior real estate executive in the next six months. The survey indicated the skills most in demand are marketing/leasing, portfolio management and asset management.

— Curtis Vosti

SEI universe performance

(periods ended March 31)



Rewrite new performance presentation rule

By Frank Minard
and Edward Baker

The new performance presentation standards for investment advisers appear to have been set up without due regard for their objectives or for their ultimate audience.

These standards, developed by the Association for Investment Management and Research, dictate how money managers present their performance numbers to existing and prospective clients.

Regardless of our disagreement with the standards, we applaud this effort as evidence that our industry is interested in self-regulation. The Securities and Exchange Commission has been supportive of it, hopefully removing the specter of government regulation.

Although we support the spirit of the AIMR's initiative, its standards were designed solely by investment advisers and neglect to give full regard to the needs of the clients they are supposed to serve, that is, consultants and pension plan sponsors. The standards are at variance with current industry practice in some cases or overly constraining; and in other areas they appear contradictory, or confusing.

Clearly a major objective of performance reporting must be to provide information to current and prospective clients that is useful to them. The new standards, recently unveiled and set to go into effect the beginning of 1993, don't fully achieve this goal.

The AIMR, although receptive to dialogue, shows a reluctance to actually reflect change in its standards. To attempt to address this concern, the AIMR after promulgating its standards issued an interpretive and implementation report that leaves one confused as to what is actually required

and what is merely suggested.

The actual standards are very specific on certain issues, while the AIMR's interpretive guidelines allow for non-compliance in some cases. For example, the interpretive guidelines state balanced managers aren't required to allocate cash positions to separate asset classes unless they want to report the returns to those asset classes separately. While this is a fair and reasonable guide, it is in conflict with the strict dictum in the standards and will cause confusion as to how much latitude really is intended.

In this regard, a major concern has to

do with the issue of "verification." The standards "encourage" verification of composites and other performance figures by an independent party. The implementation report provides detailed guidance on this issue. However, because such verification is merely encouraged, we wonder how binding the implementation report's detailed procedures really are. Thus, it seems to us accurate knowledge that performance numbers have been verified will be ambiguous at best and misleading at worst.

One reason the implementation report was necessary was that the standards are in some cases at odds with industry practice, or inappropriate. For example, the standards require composites be weighted by account size, while industry practice emphasizes equal-weighting composites. Both approaches to composite construction are useful in some cases, while neither approach is inherently correct. The pension consultant community has expressed a clear preference for equal weighting.

Last fall, as the AIMR was finishing its presentation standards, another group, the Investment Management Consultants Association, set up the Consultant's Performance Standards Task Force, composed of 36 consulting firms, to draft their own reporting standards from the consultants' perspective. These standards reflect the way these consultants would

like to receive performance data from investment firms; and they include disclosure standards for communication by consultants with the ultimate client, the sponsor.

Although many of the basic underpinnings of the AIMR effort are reflected in the Consultant's Performance Standards, these latter standards are more comprehensive and much more flexible. Their aim is to ensure full disclosure, consistency where appropriate, but greater flexibility where hard and fast rules lead to obfuscation.

The consultants' standards reflect the structure for performance data most useful to consultants. Once published, the consultants' standards will de facto become reporting requirements for investment managers. Presumably, money managers that want to be included in consultant data bases and consultant-conducted searches will need to conform to these standards. It clearly behooves the investment manager community to adapt to the consultants' requirements.

The consultants' task force recently distributed first draft of its standards is specifically at odds with the AIMR standards in certain respects. For example, the consultants' standards require equal-weighted composites in direct opposition to the AIMR requirement of dollar weighting.

The investment community ought to pressure the AIMR to clear up these concerns over these basic issues. Of major concern is that the AIMR set an implementation date of Jan. 1, 1993. More discussion of the standards and their implementation is necessary. At the very least, the AIMR should enter into a dialogue with the IMCA and the consultants' task force and plan sponsors to make sure investment managers only have to deal with one set of standards.

Our major goal is to see that the AIMR standards are comprehensive and consistent and reasonably conform to industry practice. The standards should help promote fair and effective communication within the community, but this can only happen if they reflect the needs and practices of its members. Once the AIMR standards are improved, a new implementation deadline should be announced to provide the investment manager community ample time to adapt.



GREG LOUDON

Frank Minard is managing director of Oppenheimer Capital, New York, and a board member of the Investment Management Consultants Association and co-chair of the Consultant's Performance Standards Task Force. Edward Baker is director-marketing of BARRA, Berkeley, Calif., and a member of the task force.

Probing clues to poor 401(k) asset allocation

By Kirk E. Loury

A survey of 401(k) plan participants nationwide turned up some contradictory responses, offering a clue to the difficulty corporate sponsors have in providing education on investments to employees.

The survey, conducted by New York Life Insurance Co. and the Gallup Organization, found 82% of the respondents feel satisfied with the information they receive from their employers and believe it will enable them to make well-informed investment decisions. A similar percentage of respondents said they are "very comfortable," or "comfortable" with their financial knowledge.

At face value, this overwhelming positive response should please 401(k) sponsors. Unfortunately, as the full survey makes

clear, most participants confuse information they receive during the enrollment process with a true understanding of basic investment concepts. Further questions in the survey reveal only 15% of respondents receive information on the rudiments of investing, such as tax deferral and asset allocation.

It's not news that 401(k) participants often make investment decisions that seem headed to result in underfunded nest eggs. The survey shows how extensive the underpinnings of this problem are. After respondents claim to be well informed, they were asked in the survey to rate their familiarity with five basic investment concepts to validate their beliefs. The results show that for four of the five investment concepts — compounding, inflationary impact, asset allocation and age's relation to risk — about three-quarters of the respondents express unfamiliarity or only a vague familiarity. In the exception — advantages of tax deferral — nearly two-thirds of respondents expressed unfamiliarity.

Furthermore when respondents were asked why they make certain 401(k) investment decisions, the two most common responses were "no particular reason" and "don't know." Equally troubling, virtually none of the respondents indicated they base their allocation decisions on long-term investment objectives. They said their decisions are often influenced by recent changes in the economy and markets, which is simply another way to describe the highly un-

certain area of market timing.

These findings are consistent with the inadequate diversification and questionable allocation decisions reflected in many of the respondent's 401(k) portfolios. For example, the youngest group of survey respondents (ages 25-34) has the most conservative investments of any age group, even including the oldest group, which begins at age 55. It's interesting to note that this youngest group has, by far, the highest level of college education, among the four age groups defined by the survey. Sponsors cannot assume that higher education will automatically result in sound investment decisions, nor does the lack of education necessarily result in inadequate decisions.

The success of a 401(k) plan must be judged ultimately by the appropriateness of the participants' contributions and investment allocations. A well-constructed 401(k) plan with wide-ranging and superior investment selections and record keeping can't be a success if participants' investments are poorly diversified and don't adequately meet their long-term retirement needs. This is the central problem employers and employees still have to confront.

A dutiful education program doesn't necessarily mean that each participant will understand what he or she has read or been told or apply this knowledge successfully. In any diverse group there will be individuals who will need programs that go beyond standard education.

As employers seek to balance their fiduciary risk with their awareness of a participant's need to make proper allocation decisions, we are likely to see more 401(k) plans make greater use of investment alternatives that offer pre-determined asset

mixes that reflect age and lifestyle groupings. There already is limited use of 401(k) asset allocation consultants, and it's possible we will begin to see the use of financial planners, an option sought by 55% of the survey respondents. Interestingly, 48% of the respondents indicated they would be willing to pay up to an average of \$158 for this service.

Although participant education may be a major concern of sponsors, few are capable of fulfilling this role by themselves. Most sponsors aren't in the education business, just as they're not in the investment or record keeping business. It is incumbent on them to insist that their 401(k) providers, primarily investment advisers and record keepers, also act as educators.

How familiar are you with the following concepts?

	Not familiar to somewhat familiar
Benefits of tax deferral	64%
Compounding	75
Inflation's impact on investing	74
Age as it relates to investment risk	72
Asset allocation	79

SOURCE: New York Life Insurance Co. and Gallup Organization survey of 401(k) participants. JUNE 1991

Top reasons participants change 401(k) investments

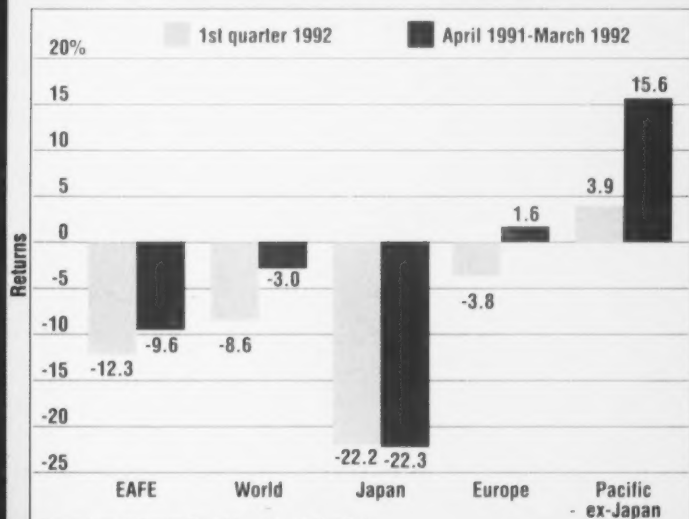
	Percent responding
Changes in market conditions/trends*	16%
Changes in the economy*	12
Change in return/interest rates*	7
Performance	5
Change in personal situation other than income	4

*Indicates market timing.
SOURCE: New York Life Insurance Co. and Gallup Organization survey of 401(k) participants. JUNE 1991

Kirk E. Loury is marketing vice president-pensions, New York Life Insurance Co., New York.

MSCI Worldwide indexes

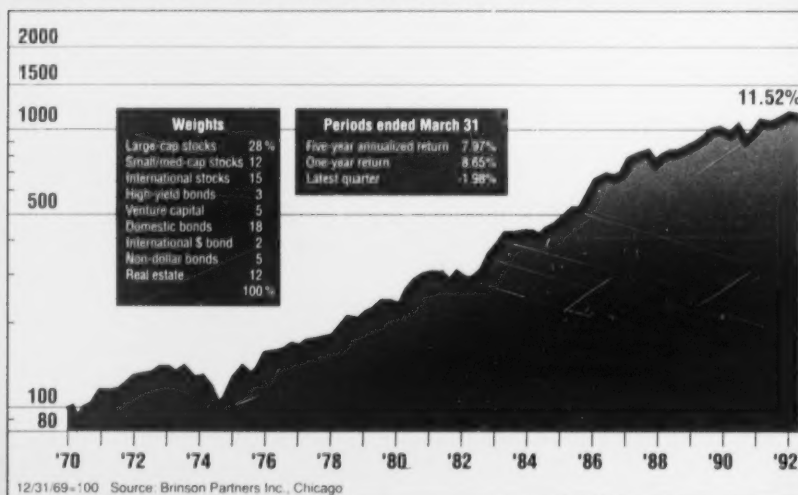
Indexes are in U.S. dollar terms without dividends re-invested



Source: Morgan Stanley Capital International, New York

Multiple Markets Index

The Multiple Markets Index is a benchmark for total portfolio returns. It is composed of nine asset classes used by retirement plan executives; it is calibrated to reflect the same degree of risk of the typical pension portfolio; it uses passive fixed policy weights; and it represents the individual asset classes by the broadest and most complete market return data available.



Russell indexes by economic sector

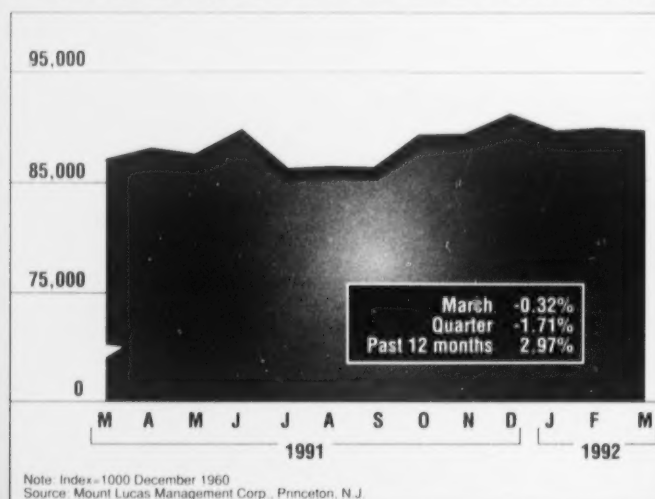
First quarter 1992 returns

	Russell 3000	Russell 2000	Russell 1000
Autos & transportation	13.92%	12.47%	14.03%
Consumer discretionary	3.11	13.27	2.31
Consumer staples	-4.83	2.58	-4.93
Financial services	2.80	14.23	1.56
Health care	-12.63	-5.72	-13.13
Integrated oils	-8.27	-2.41	-8.30
Materials and processing	6.11	10.44	5.71
Other energy	-4.79	3.13	-5.69
Producer durables	-1.34	6.50	-2.17
Technology	3.28	8.19	2.81
Utilities	-6.07	-0.75	-6.20
TOTAL	-1.59	7.50	-2.16

Source: Frank Russell Co., Tacoma, Wash.

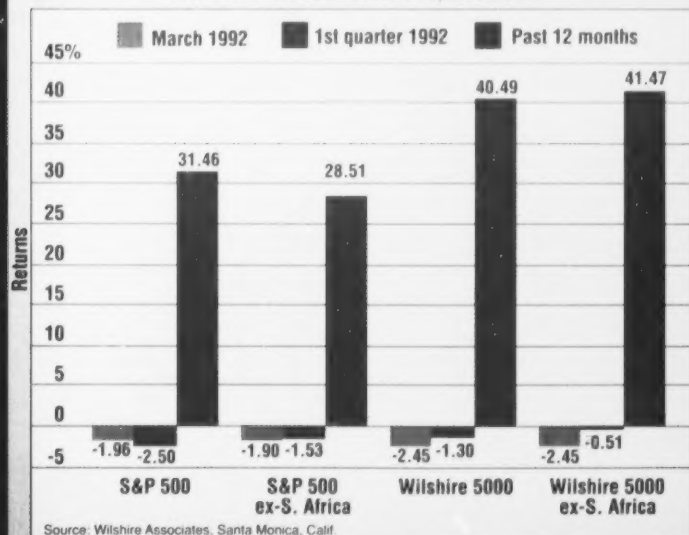
MLM Index

The MLM Index is an unleveraged index used as a benchmark to evaluate commodity futures investments. Periods ended March 31.



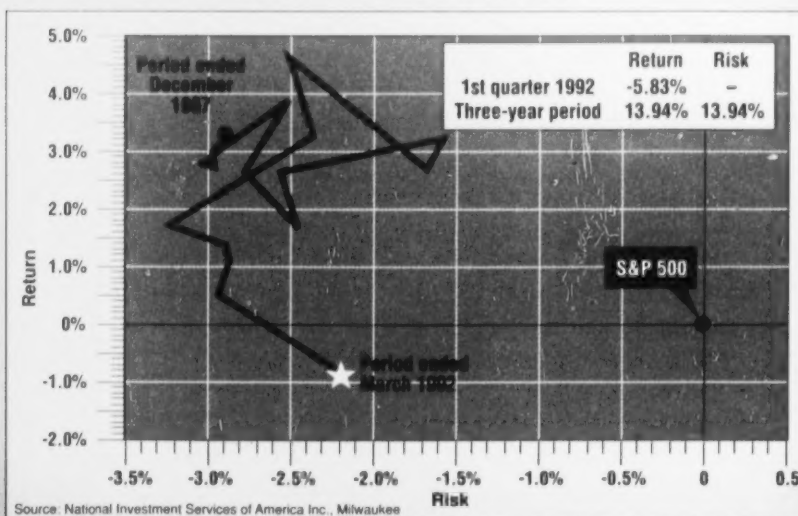
South Africa Free Index

Ex-S. Africa excludes stock of companies with an equity stake in a South African business, no replacements.



An Efficient Index

The Efficient Index is an S&P 500 portfolio optimized for the lowest volatility during the previous two-year period, subject to four constraints. The line represents the return and risk figures for the optimized index relative to the S&P 500 during rolling three-year periods.



GIC rates bouncing back

Spreads over Treasuries widen with easing by Fed

By Fred Williams

Rates on guaranteed investment products rebounded during the first quarter as Fed easing and upward pressure on interest rates resulted in more attractive quality spreads than have been seen in several months.

Although rates were volatile during the quarter, spreads over Treasury instruments with comparable maturities widened to an average 70 to 110 basis points on five-year contracts, said John Knight, president of Lamberson Knight GIC Inc., Short Hills, N.J. That is an improvement from the 70 to 80 basis-point spreads of the previous quarter.

"People are still buying GICs; the credit concerns of the past several months are pretty much by the wayside," said Mr. Knight.

Peter Bowles, president of Fiduciary Capital Management Inc., Woodbury, Conn., said guaranteed investment contract rates began to increase in mid-January for the first time since mid-1991. He said the increase in rates is a reflection of increasing signs of economic recovery.

Mr. Bowles said the outlook for a continued improvement in GIC rates is uncertain given the election-year politics and an improving economy, and that the most likely outlook is for stable rates for the remainder of 1992.

The following insurance company rate quotes on bellwether five-year, single-deposit, simple-interest, \$1 million GICs were provided by Lamberson Knight and GIC Inc., Beaverton, Ore. The first number is for March 31, 1992; the second is for late December 1991.

- Allstate Life Insurance Cos., Northbrook, Ill.: 7.53% vs. 6.41%.
 - Capital Initiatives Corp., Louisville, Ky.: 7.51%; 6.32%.
 - CNA Insurance Co., Chicago: 7.29%; 6.44%.
 - Confederation Life Insurance Co., Atlanta: 7.72%; 6.57%.
 - Continental Assurance Co., Chicago: 7.29%; 6.34%.
 - Hartford Life Insurance Co., Hartford, Conn.: 7.3%; 6.28%.
 - John Hancock Mutual Life Insurance Co., Boston: 7.32%; 6.45%.
 - Life Insurance Co. of Virginia, Richmond: 7.56%; 6.68%.
 - Lincoln National Life Insurance Co., Fort Wayne, Ind.: 7.47%; 6.37%.
 - Manufacturers Life Insurance Co., Toronto: 7.37%; 6.49%.
 - Massachusetts Mutual Life Insurance Co., Springfield: 7.12%; 6.02%.
 - Nationwide Life Insurance Co., Columbus, Ohio: 7.31%; 6.24%.
 - New York Life Insurance Co., New York: 7.55%; 6.5%.
 - Northwestern National Life Insurance Co., Minneapolis: 7.45%; 6.39%.
 - Ohio National Life Insurance Co., Cincinnati: 7.73%; 6.73%.
 - Pan American Life Insurance Co., New Orleans: 7.59%; 6.44%.
 - Penn Mutual Life Insurance Co., Philadelphia: 7.7%; 6.46%.
 - SAFECO Corp., Seattle: 7.48%; 6.77%.
 - State Mutual of America, Worcester, Mass.: 7.59%; 6.49%.
- William M. Mercer Asset Planning Inc., Deerfield, Ill., surveys insurance companies for rate quotations, and provided the following summary of various bullet

GICs for March 1992:

- Three-year, \$1 million, compound: high, 7.55%; low, 5.43%; average, 6.51%.
- Three-year, \$1 million, simple: high, 7.45%; low, 5.45%; average, 6.48%.
- Five-year, \$1 million, compound: high, 8.04%; low, 6.5%; average, 7.5%.
- Five-year, \$1 million, simple: high, 8.04%; low, 6.44%; average, 7.39%.
- Seven-year, \$1 million, compound: high, 8.46%; low, 6.93%; average, 7.84%.
- Seven-year, \$1 million, sim-

ple: high, 8.27%; low, 6.91%; average, 7.7%.

- Three-year, \$5 million, compound: high, 7.8%; low, 5.03%; average, 6.53%.
- Three-year, \$5 million, simple: high, 7.75%; low, 4.91%; average, 6.52%.
- Five-year, \$5 million, compound: high, 8.09%; low, 6.4%; average, 7.53%.
- Five-year, \$5 million, simple: high, 8.09%; low, 5.84%; average, 7.41%.
- Seven-year, \$5 million, compound: high, 8.52%; low, 7%; average, 7.9%.

• Seven-year, \$5 million, simple: high, 8.32%; low, 6.52%; average, 7.74%.

Mercer also surveys banks for rate quotes on their guaranteed instruments. Rates on one- and three-year bullet BICs for March were:

- One-year, \$1 million, compound: high, 5.05%; low, 4.07%; average, 4.64%.
- One-year, \$1 million, simple: high, 5.21%; low, 4.07%; average, 4.71%.
- Three-year, \$1 million, compound: high, 6.83%; low, 5.71%; average, 6.32%.
- Three-year, \$1 million, simple: high, 6.97%; low, 5.84%; average, 6.41%.
- One-year, \$5 million, compound: high, 5.06%; low, 4.17%; average, 4.7%.
- One-year, \$5 million, simple: high, 5.26%; low, 4.17%; average, 4.77%.

• Three-year, \$5 million, compound: high, 6.83%; low, 5.81%; average, 6.38%.

• Three-year, \$5 million, simple: high, 7%; low, 5.94%; average, 6.46%.

Schmidt Management Co., a GIC market research and consulting firm in Tulsa, Okla., has developed a guaranteed product performance measurement index. The Schmidt GIC Composite Index approximates the return of a continuous weighted investment in one- to 10-year original maturity GICs. The index shows returns, not rates.

For the first quarter of 1992, the Schmidt GIC Composite Index had a total return of 2.07%, compared with 0.98% on 90-day Treasury bills, -2.5% for the Standard & Poor's 500 Stock Index and -1.44% for the Merrill Lynch Government/Corporate Bond Index.

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3/27/92 325.00		
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Northern Trust Global Custody

Reebok vote signals shareholder interest

By Joel Chernoff

WASHINGTON — The 26.9% vote in favor of a proposal to create an independent compensation committee at Reebok International Ltd. reveals budding institutional interest in executive pay issues.

"It's a strong indication that these issues are getting substantial attention from shareholders," said Luther Jones, manager of corporate affairs for the \$26 billion Florida State Board of Administration, Tallahassee, which supported the proxy resolution.

The vote in favor of the Reebok resolution was significantly higher than tallies on pay-related resolutions at other companies so far this proxy season. In February, the Securities and Exchange Commission said for the first time ruled pay-related shareholder resolutions at 10 companies must be included in corporate proxy materials, albeit with some minor changes. Eight of those proposals survived, not including the Reebok proposal.

Resolutions at Bell Atlantic Corp., IBM Corp. and Equimark Corp. garnered votes ranging from 16% to 16.7%, according to the Investor Responsibility Research Center Inc., Washington. Resolutions at Aetna Life and Casualty Co. and Baltimore Gas & Electric Co. won only 8.6% and 12.7% of their votes respectively, the IRR said.

Two other pay-related measures were defeated at UJB Financial Corp. and Jefferson-Pilot Corp., but both also were entangled in corporate proxy fights.

What makes the resolution at Reebok different is that it was aimed at the structure of the board's compensation committee, not at limiting executive or director pay.

Under the resolution submitted by the \$20.5 billion New York City Employees' Retirement System, Reebok would have been asked to have its compensation committee composed entirely of independent directors. Reebok, which opposed the resolution, said its committee already was composed of independent directors, but the board retained discretion to determine independence.

Given that part of the fight was over semantics and not principle, the proposal fared pretty well, said Peg O'Hara, director of the Investor Responsibility Research Center's corporate governance service.

Corporate governance proposals that deal with "broad, structural issues" have won higher votes than those that would set a ceiling on executive pay, said Lilli Gordon, president of The Gordon

Group, a Cambridge, Mass.-based corporate governance advisory firm. For example, the proposal at Baltimore Gas & Electric sought a cap on compensation of 20 times the average worker's pay.

Jill Lyons, director of the proxy advisory service at Institutional Shareholder Services Inc., Washington, was disappointed with the results at Reebok and elsewhere.

"I think all of the numbers were unexpectedly low," especially the Reebok proposal, she said. "I thought they would have gotten more support."

Still, Ms. Lyons and other governance experts believe institutional support for compensation proposals will increase next year as investors familiarize themselves with the issues.

Ms. O'Hara said the proposals need to be better crafted to appeal to institutional investors, and many of the proposals were not targeted at companies that had pay or performance problems.

Experts said it was too early to tell how effective strategies to withhold votes for directors at companies with objectionable pay policies have been. Pension executives are just starting to use this strategy as a way of sending a message to corporate boards.

So far, five public pension funds withheld votes for two directors who serve on the compensation committee at Westinghouse Electric Corp. to protest the large stock options awarded company Chairman Paul Logo.

The \$23 billion State of Wisconsin Investment Board was one of those funds. Kurt Schacht, the fund's general counsel, explained the board voted against the directors "because we felt the compensation plan bore no resemblance to the performance of the company and we wanted to send a message regarding our concern."

The Florida fund, the California Public Employees' Retirement System and the California State Teachers' Retirement System, both of Sacramento, and the Colorado Public Employees' Retirement Association, Denver, also withheld their votes for the directors, sources said.

In addition, the California employees fund withheld its votes for IBM's directors to protest the company's pay package, said Richard Koppes, general counsel.

The next key test of institutional interest in the subject will occur at the May 21 annual meeting of Champion International Corp., where a number of funds are expected to withhold their votes for Champion's board to protest the company's weak performance under Andrew Sigler, chairman and chief executive officer (*Pensions & Investments*, April 27).

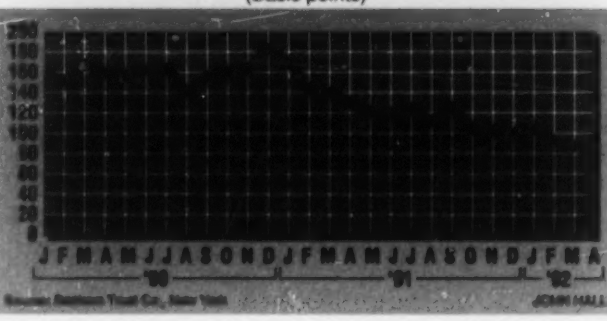
investment funds. Navistar is switching from an unbundled approach using several managers with Milliman & Robertson as record keeper and Continental Bank as trustee.

Bankers Trust taps Thomson

Bankers Trust Co. named Chilton Thomson its chief international investment officer, a new position. He will be based in London and will report to H. Kent Atkins in New York.

Long 'A' industrial spread vs. Treasuries

(Basis points)



Junk

Continued from page 3

vice president-fixed income at Bankers Trust Co., New York: "You see a lot of issuers re-equipping, the economic outlook looking forward is a little clearer and yield spreads (between high-grade corporates and Treasuries) are very narrow."

Bankers Trust has \$7 billion in actively managed fixed income under management. Clients whose assets total \$1 billion will allow part of that total to be put into junk bonds. The bank, which just began buying junk bonds in the first quarter of 1992, has about \$30 million in high-yield bonds.

The wide spreads between the lowest investment-grade bonds and the highest junk bonds have proven a cogent argument, money managers said. A BBB bond (the lowest investment grade rating) is about 140 to 160 basis points over comparable U.S. Treasuries. A top-tier junk bond (rated BB) is at 220 to 250 basis points over Treasuries. That's a big increase in spread for a small step down in credit quality, managers say. And with the reverse leveraged buy-out boom, many of these credits are prime candidates to move up into the investment-grade market.

"There's a sudden jump between BBB and BB," said Mark Arnold, chief operating officer and managing director at BEA Associates, New York. BEA manages \$6 billion in fixed income, of which \$300 million is in junk bonds.

"The market views it as: 'Oooh, you're not investing in a prudent asset anymore,' and for that reason there's a yield gap that exists, which isn't really a reflection of actual risk," he said.

Some pension funds give their money managers full discretion over the investment of their assets. In other cases, however, the bond managers have to obtain permission to invest in junk bonds, which, said PIMCO's Mr. Trosky, can be an "education process."

Some "feel it doesn't fit their risk profile," he said, while others already have a portion of their assets allocated to junk bonds and so do not want additional exposure.

Of the \$6.4 billion in fixed income under management by the Boston office of Loomis Sayles, clients whose assets total slightly more than \$2 billion have given the firm permission to invest in junk bonds, said Fred Vyn, vice president-senior portfolio manager. As a result, Loomis Sayles has a "fairly significant exposure" to the high-yield bond market, Mr. Vyn said, declining to cite specific figures.

A number of the firm's accounts allow anywhere from 20% to 40% of their fixed-income assets to be

put in below-investment-grade bonds, Mr. Vyn said. "We're still fairly close to fully utilizing that," he said. "It's worked out really well."

The phenomenon of so-called junk bond crossover buyers was felt as early as April 1991, when RJR Holdings successfully sold a \$1.5 billion 10.5% senior note issue to high-grade bond investors as well as junk buyers.

Traditional high-yield buyers increasingly have been avoiding the tightly priced top-tier bonds, where they believe they are not being appropriately rewarded for the credit risk.

Also, savvy market players noted the interest-rate risk inherent in those top-tier junk bonds has increased because the bonds are linked to the rest of the corporate market.

Now, those bonds often are based on the price of comparable U.S. Treasury securities, an anomaly in a market used to just discussing the coupon and credit risk alone, regardless of Treasury yields.

"A year ago you could have taken a shotgun approach and just bought anything. Now you have to be more selective. You have to pass on a fair number of deals if you have questions on the credit," said Fred Quirsfeld, vice president and portfolio manager of the IDS Bond Fund, Minneapolis. That \$2 billion fund is required to have at least 50% of its assets in investment-grade bonds.

"I really don't like the high-yield market now," said Harry Resis, first vice president and portfolio manager of the \$453 million Kemper Income Capital Preservation Fund, Chicago, an investment-grade bond mutual fund that is allowed to invest up to 10% of its assets in the below-investment-grade market. Right now the fund has about 4% of its assets in junk bonds, he said.

Mr. Resis is also Kemper's director of high-yield trading and is in charge of all of the trades for Kemper's \$4 billion high-yield bond portfolio. He and others

warned some crossover buyers should watch out for both credit and interest-rate risk.

"It's an interesting game, but I believe for crossover investors to play, they ought to have the resources to play. If you're buying it (a junk bond) because it has a higher yield vs. BBB securities and you don't truly understand the credit, it can be perilous," Mr. Resis said.

"The vogue is you're buying next year's investment-quality bonds," said Kingman Penniman, executive vice president and director of high-yield research at Duff & Phelps/MCM, Montpelier, Vt. "But on the other hand, the high-yield player is saying, 'Wait a minute, we've been here before,'" he said.

What happened before, Mr. Penniman explained, was a rush for yields with not enough consideration given to the financial soundness of the leveraged companies. The subsequent rash of defaults and bankruptcies has not yet been forgotten by traditional high-yield bond buyers.

"The perception was you were buying the 'rising stars,'" he said.

Now, he said, high-yield players believe issuers want them to accept less. "There are a lot of things that can change. Not all of the companies are going to be able to do IPOs," he said.

Mr. Resis said he now tries hard to find junk bonds that have minimal interest rate risk, which means avoiding "a crossover bond that is priced on a spread over Treasuries," he said.

He looks for a bond that "doesn't do what other bonds do, which is go down when interest rates go up."

"When the spreads were as wide as they were 12 months ago, you were making a pure credit bet," said IDS' Mr. Quirsfeld. "Today, spreads are so tight, you're also getting some interest rate risk."

But interest rate risk is no surprise to a high-grade bond manager. For example, Banker Trust's Mr. Ackerman said the interest rate risk on a junk bond is no greater than the interest rate risk inherent in the rest of the corporate bond market. What the crossover investors are doing is reaping higher yields for greater credit risks, he said.

"It depends to a large extent on your confidence in your credit analysis," he said. "If you've done your report and you feel pretty comfortable about your credit decision," you'll buy the bond.

A directory of international and global managers will be featured in the June 22 issue of *Pensions & Investments*.

AT DEADLINE

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its \$8.5 million pension plan, according to George Wiederanders, treasurer. Consultant John Byrd will provide asset allocation and investment advice as well as manager performance evaluation.

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